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February 10, 1970

DOS REVIEWED 03-Dec-2009: NO OBJECTION TO DECLASSIFICATION

MEMORANDUM FOR DR. KISSINGER

FROM: C. Fred Bergsten

**SUBJECT: Peterson Meeting with the President on February 11
at 10:00 a.m. -- And Your Meeting with Peterson
at 9:30 a.m.**

Attached at Tab I is a memorandum for the President, briefing him on the proposals of the Peterson Task Force and recommending certain points for emphasis in his discussion with Peterson.

I assume that you will use the same briefing material -- supplemented by the more detailed summary of the Task Force work which I gave you earlier and which is at Tab B -- in your own meeting with Peterson. I also assume that Ed Fried, the Executive Director of the Task Force, and I will be attending both meetings. I feel it is essential for Fried to do so since he is, after all, writing the report.

RECOMMENDATION:

That you sign the memorandum for the President at Tab I.

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JOHN J. HARTER

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February 10, 1970

MEMORANDUM FOR THE PRESIDENT

FROM: Henry A. Kissinger

SUBJECT: Your Meeting with Rudolph Peterson on February 11 at
10:00 a.m.

Proposals of Peterson Task Force

The Peterson Task Force on International Development is now in the process of completing its report which it plans to present to you in early March. Your meeting with Peterson thus represents the last opportunity to make suggestions without asking him to backtrack.

The Task Force report will contain all the right themes: an increased sharing of the U.S. role in the LDCs with the LDCs themselves and the international organizations, greater emphasis on private investment and trade, etc. (A fairly detailed summary on where they are heading is at Tab B.) Their specific proposals would drastically alter the U.S. assistance program, both substantively and organizationally, seeking in the process to provide clear and persuasive objectives for our efforts.

-- They would assign specific objectives to specific programs, e.g. supporting assistance should be linked to short-term U.S. political goals and development lending should be linked to long-term U.S. interests in economic development. They feel that the use of numerous objectives to justify each individual program has dragged all programs down.

-- They see development aid and technical assistance as helping create a more livable world and hence enhancing long-range U.S. security. We need to help reduce poverty around the world, to avoid repeating the failures of the past in our own country which have produced our racial and urban problems of today. We must mount common attacks on common problems, such as the environment.

-- On amounts of aid, we should reject any mechanical formula which relates aid to GNP.

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-- We should significantly increase our contributions to multilateral lending institutions, but there is no evidence that we need big increases in our bilateral aid levels. The focus must be on effective programs rather than large infusions of money.

-- Military assistance should be phased out over time.

-- On organization, drastic change is necessary to carry out the necessary disaggregation of objectives: They would create a new development lending bank to channel development assistance, a separate technical assistance foundation, and a separate security agency in State to manage the shorter-term political-security programs.

-- The deep need for coordination of our various assistance programs, which would be increased by the creation of the new bodies, would be met by creation of a U. S. Development Board -- comprising the heads of all relevant agencies -- run by a Presidential assistant in the White House. (State agrees with the need for better coordination but wants to do the coordinating itself. It has prepared a memo on the subject, which is at Tab C.)

-- Numerous program innovations: guarantees of LDC borrowings in the U. S. capital market; subsidization of interest rates on money borrowed directly by the U. S. Government from the private capital market to loan to LDCs; multi-year appropriations for development assistance; distribution of some portion of the new Special Drawing Rights to international lending institutions; untying; a multifaceted effort to anticipate and pre-empt the debt burden problem; multilateralization of guarantees of private foreign investment; etc.

Appraisal

All of these proposals fit the basic themes which we have already decided to pursue. None of them will embarrass us. The major need now is to get Peterson to focus hard on the priority issues and to clear up a few fuzzy areas:

-- What should be the fundamental objectives of our assistance programs?

-- How will those objectives be promoted by the specific program proposals of the Task Force?

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-- What do these recommendations imply for our requests for budgetary appropriations in the future?

-- What is the ultimate objective on the multilateral-bilateral mix of assistance for development purposes?

-- Must over-all coordination come from a New White House official, or could State handle it?

I recommend that you spend most of the meeting on objectives and their implementation through specific program proposals. At Tab A are talking points on these questions and on other more specific points if time permits their discussion. I recommend that you open the meeting by inviting Peterson to briefly describe the outcome of his report as he now foresees it.

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TALKING POINTS

1. I am greatly impressed by the amount of homework which you have done in the short period of time available to you on this very difficult subject. I greatly appreciate your efforts and look forward to receiving your report in early March.

2. This year's aid cycle confirmed what I mentioned to you in San Clemente: that our present program is dead and must be completely overhauled.

3. Perhaps we might start by your summarizing where you stand at this point.

(----- after Peterson's statement -----)

4. I am particularly interested in what you said about a new approach to presenting the objectives of our assistance efforts:

-- It has traditionally been argued that we need to cite numerous objectives to get money for individual programs, by appealing to various interest groups. Are you confident that it will be better to assign specific objectives to specific programs and let each rise or fall on its real merits? Can we get appropriations for frankly "political" programs?

-- How do you see the relationship between the assistance programs you propose and over-all U. S. foreign policy?

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-- How do you now see the relationship between economic development and political stability around the world?

5. What do your recommendations imply for the level of budgetary appropriations which the U. S. Government would seek in the next few years, and for the longer run? Should we have any particular target in this area?

6. I was also very interested in your concern over the need for better coordination of our various assistance programs. Must such coordination come from a new official in the White House? Could the State Department do it?

7. What do you recommend on military assistance? Objectives of program? Level of appropriations?

8. What is your ultimate objective for the multilateral/bilateral mix of assistance for economic development purposes? Do we really need a new lending institution to administer the bilateral part of it, which is to be (reduced) (eliminated)?

9. Should we concentrate our aid or disperse it widely? How should we decide what countries to help? Do you have any suggestions for changing our present country distribution at once?

10. What types of people should we get to run our assistance programs? Economists or others?

11. What types of loans should we stress? Should we support big industrial projects or social infrastructure?

12. What can we do concretely about the population problem?

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CONFIDENTIALThe Peterson Task Force on International Development:Status of Proposals

The Peterson Task Force has done an enormous amount of homework and has met with, or solicited views from, virtually every relevant source in the country. (See attached paper for details.) It has received excellent papers on the whole range of aid issues from the top academics, foundation officials, and businessmen. It has now spent two weekends developing the framework of the report, which the staff is drafting and which will be presented to the President around March 5.

The following indicates the directions in which the Task Force seems to be headed. They start from the premise that the United States is no longer dominant; that the LDCs and international organizations are capable of doing more themselves; and that responsibility should thus shift increasingly to them from the United States alone. Some of their specifics are clearer than others at this point, and a few are not yet completely developed. I refrain at this stage from comparing their proposals with those of others, such as State or AID, or of outlining options to their own thinking.

Rationale

-- Assignment of Specific Objectives to Specific Programs: The overall aid effort has suffered greatly from confusion among its various objectives. Use of numerous objectives to justify each individual program and efforts to actually pursue numerous objectives via each individual program, have dragged all of them down. Our different objectives should be clearly pursued through the different individual programs in an inevitably multifaceted overall effort, e.g., supporting assistance should be clearly linked to short-range U.S. political and security goals and development lending should be clearly linked to long-term U.S. interests in economic development.

-- Ordering of Priorities: A hierarchy among the various goals should be established, e.g., the containment of communism has not disappeared but is far down the list compared to 1950 and pursuit of short-term U.S. commercial interests should be subordinated.

-- Specifics: Our "aid" -- they want to get away from that word -- has several objectives. We will continue to need MAP and supporting

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assistance to meet short-term political and security objectives. Development aid and technical assistance are means (not ends in themselves) toward enhancing long-range U. S. security by helping create a more livable, and hence more peaceful, world. We need a global (rather than purely domestic) anti-poverty program, to avoid repeating our domestic errors and the resultant urban and racial crises. We must attack common problems, such as the environment, together. It is in our long-term security interest to help promote the development of pluralistic societies and institutions which can provide a basis for stable nations. In all categories, we will focus our efforts in certain countries.

COMMENT: Assignment of specific objectives to specific programs and ordering of priorities should help a great deal. Still needs strengthening on specifics but coming. (Sam Huntington has done an interesting paper for the group on rationale.)

Amounts of AID

-- Quite negative to any mechanical formula, such as Pearson Commission target of 0.7 percent of GNP into official aid by 1975, which would mean annual increases of 30 percent for us from present \$3.3 billion level to over \$8 billion. View such targets as admitting bankruptcy of thinking on rationale; how is it possible to say what amounts are needed and usable?

-- LDCs need and can effectively use more aid than we are now giving. However, focus should be on developing effective programs to meet clearly recognizable needs. No big increases in aid levels are called for now, although we should build a base for larger transfers if LDC needs increase in the future and as our domestic budgetary situation eases.

-- Favor sharp increases in U. S. contributions to multilateral lending institutions, perhaps by \$500 million over present levels at first. Main recipient should be International Development Association, soft loan affiliate of World Bank, which should get \$1 billion annually from all donors compared to present \$400 million. (U. S. contribution would rise from \$160 million to \$400 million.) Inter-American Development Bank could go up by 50 percent.

-- U. S. bilateral program should rise above present appropriations, but not above what this Administration sought for FY 1970 and now is seeking for FY 1971. Clearly need retain more than token bilateral

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effort to meet portions of U.S. aid rationale not shared fully by international community. Increased resort to U.S. private capital markets (see next section), however, implies that increased program might not require similar increase in appropriated funds.

-- MAP should be based on concept of promoting self-sustaining defense establishments in LDCs. Might eliminate small MAP programs and replace large programs with commercial sales over time, except for training. Group is less sure of self in this area and recommendations may be more tentative. (Mort Halperin has done paper for them.)

COMMENT: Excellent approach. Would move decisively toward multilateralization. (Note: It is now feasible to go even further and declare that we will multilateralize all U.S. development aid -- as opposed to short-term security aid -- by some early target date, say 1975 or even earlier. This would be the most dramatic possible evidence of our new foreign policy approach, but the group has not gone that far yet.) Repudiation of mechanical use of Pearson target will generate some foreign policy problems and charges of abdication of leadership, but will be played carefully and must (and can) be tackled positively in view of budgetary realities. Realistic and hard-headed approach will promote credibility and should help on appropriation front. MAP phaseout recommendation could cause problems.

Specific Program Innovations (The major ideas follow; there are in addition numerous smaller ones.)

-- USG to guarantee borrowings of LDC institutions in private U.S. capital markets. This would especially help "graduates" from concessional aid program.

-- USG to borrow for aid purposes directly from U.S. capital market and subsidize the interest cost to the LDC from repayments on outstanding aid loans.

-- Flexible loan terms depending on status of borrower and/or purpose of loans.

-- Multiyear (three or even five-year) lump-sum appropriation for development lending, with annual Congressional reviews of expenditures.

-- Portion of national allocations of new Special Drawing Rights granted to IDA, initially to supplement regular budgetary contributions to IDA but perhaps eventually to fund it entirely. (With other donors.)

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-- Untying of all U. S. bilateral loans. (Completely if other donors do so too, to limited extent anyway.)

-- Concerted effort among creditors to anticipate debt burden problems of next five - ten years, and move to pre-empt them by re-scheduling now for up to five countries. Declare multilateral easing of terms on new credits for at least five years for these countries. All new private suppliers' credits to these countries, which are major part of problem, should have maturities of at least ten years.

-- Multilateralize guarantees of private foreign investment, which would help defuse political problems of U. S. investment, by supporting IBRD proposal for an International Investment Insurance Agency.

-- Encourage U. S. firms to make available to local investors a majority of their shares, as Anaconda of Mexico has now done, to help blunt the political problem of foreign direct investment.

-- Abolish Hickenlooper Amendment.

-- Propose new money for the International Finance Corporation, the World Bank affiliate which promotes private investment in LDCs, so that it can increase its equity financing of LDC businesses. IFC should also sell its investments to local investors as they become profitable.

-- Stress research rather than operations in U. S. technical assistance program, with new emphasis on contracts to private institutions rather than use of direct-hire personnel. Goal is problem-solving machinery to meet long-term needs.

-- Trade policy must be integrated with aid policy. Strong support for U. S. generalized tariff preferences proposal. U. S. should liberalize its numerous trade restrictions which limit LDC exports.

COMMENT: Many of these ideas are both good in themselves and will convey a sharp image of newness. They could form the framework of a real Nixon aid program. Taken together they move sharply toward multilateralization -- thereby reinforcing the proposals to shift our money increasingly to multilateral channels -- and reliance on the private sector. Some of the ideas will be controversial, particularly for financial conservatives. The group has not developed anything new on population and has not come up with any new foci for our technical assistance effort.

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Organizational

-- Create a U.S. Development Bank as channel for U.S. bilateral lending for economic development purposes. Board of directors to include private citizens and relevant Cabinet officers, including Secretary of State. Bank would operate as independent Government corporation, a la Export-Import Bank. AID would be abolished.

-- Create a Professional Cooperation Foundation to manage technical assistance. Governed by private-public board.

-- Create a Security Assistance Agency in State to manage MAP policy, supporting assistance and police programs.

-- Create a U.S. Development Board, whose chairman would sit in the White House, might be made a member of the National Security Council, and would have a small staff (a la Larry Lynn's program budgeting exercise). He would coordinate policy (not operations) among the various parts of the overall U.S. assistance effort, resolving inter-agency conflicts and seizing opportunities through his ability to scan all aid-related programs. The Board would comprise the heads of the three new institutions, the Overseas Private Investment Corporation, State (for foreign policy guidance), Treasury (which handles our contributions to the international financial institutions), Agriculture (which handles PL 480), Export-Import Bank, and trade policy (centered in office of Special Trade Representative and State).

-- Sharply reduce overseas and domestic U.S. aid personnel, relying increasingly on the international institutions and LDCs themselves to develop programs and proposals.

COMMENT: The new institutions would permit clear assignment of specific objectives to specific programs. They would convey a completely new U.S. approach to our relationships with the developing countries. The Bank would convey a more businesslike image and be a proper institution to implement the financial innovations outlined in the previous section. (Note: There is a real issue as to whether we should create a new institution if we plan to phaseout all bilateral development lending.) The central coordinator would fill the need, which is already acute and would grow with the creation of new institutions, to pull together the various aspects of U.S. economic relations with the LDCs.

These organizational proposals may cause major bureaucratic problems. Secretary Rogers has indicated strong opposition to removing

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the basic lending agency from State, although he now appears to be re-considering. (Such an approach had previously been proposed by Ambassador Korry with the blessing of Under Secretary Richardson.) AID will of course oppose the transformation of the program, and particularly the separation of technical assistance from the basic lending agency. There will be problems in setting up a White House coordinator, including his relationship with your position. There will also be a problem in reconciling all this with the desire to create something special for Latin America, although we might meet this by just going ahead with the Fawcett Institute authorized by the new Foreign Assistance Act. Peterson has obviously taken the President at his word in coming up with a new look and not flinching at Bureaucratic opposition. (It could be worse: many people would channel our contributions to international financial institutions through the new bank, taking them away from Treasury, but Peterson has concluded it is not worth the trouble if a strong central coordinator is created.)

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